

GENERAL GOVERNMENT

Franchise Tax Board

Functions of the Franchise Tax Board

The Franchise Tax Board (FTB) administers the personal income tax and corporation tax, as well as the Homeowners and Renters Assistance Programs, child support collections, child support automation, Department of Motor Vehicles collections, courts collections, and Political Reform Act audits. The FTB's tax collection activities represent over 60 percent of General Fund revenue.

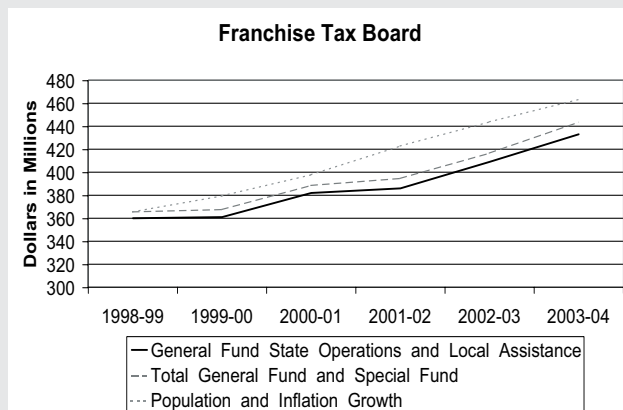
Improving Accountability and Service Delivery

Abusive Tax Shelters—Abusive tax shelters are considered one of the most significant areas of tax abuse at both the State and federal levels. The FTB is addressing the issue in the following ways:

- A memorandum of understanding has been signed between the State of California and the Internal Revenue Service to facilitate information sharing. The memorandum of understanding provides for the disclosure of federal returns

Key Audit Findings— Franchise Tax Board

- The Franchise Tax Board's General Fund and special fund expenditures have grown from \$366 million in 1998-99 to \$415 million in the 2003 Budget Act, a 13 percent increase.
- Budget increases have been due to increased audit and collection activities and due to legislative requirements related to child support collections and child support automation.





and return information related to abusive tax shelters for the purpose of identifying and bringing participants into compliance with California tax laws.

- The FTB audit program has currently redirected approximately 30 personnel years to abusive tax shelter audits. These audits could yield significant revenues over the next six to seven years. However, these revenues will be affected by both Internal Revenue Service actions and the voluntary compliance initiative. This issue will be reviewed in the spring to determine if additional funding is warranted to contract with financial products experts and economists to assist with these highly complex audits.

Child Support Enforcement—Chapter 479, Statutes of 1999, requires the FTB to develop a single, statewide, automated child support collection system, on behalf of the Department of Child Support Services. This system, the California Child Support Automation System (CCSAS), will track child support cases, collect payments from delinquent parents, and disseminate payments to the appropriate family. Development of this project began in July 2003, when the vendor contract was signed. The first phase of this major project should be completed in 2005-06.

Program Enhancements and other Budget Adjustments

The Governor's Budget proposes total expenditures of \$560.5 million and 5,075 personnel years in 2004-05 to support the FTB.

2003-04 Reduction—The FTB's budget was reduced by \$27 million General Fund and 480 positions in 2003-04 due to Control Section 4.10 of the 2003 Budget Act.

Child Support Enforcement—As noted above, the FTB is developing the CCSAS project, along with a private vendor, on behalf of the Department of Child Support Services. The FTB's budget for 2004-05 includes \$41.5 million General Fund and \$76.2 million federal fund reimbursements for vendor payments for the CCSAS project.

Board of Equalization

Functions of the Board of Equalization

The Board of Equalization (BOE) administers 23 tax programs, including the sales and use tax and the motor vehicle fuel tax. These programs generate approximately 33 percent of total State revenues. The 2004-05 Governor's Budget proposes total expenditures of \$326.8 million and 3,462 personnel years for the BOE.

Program Enhancements and other Budget Adjustments

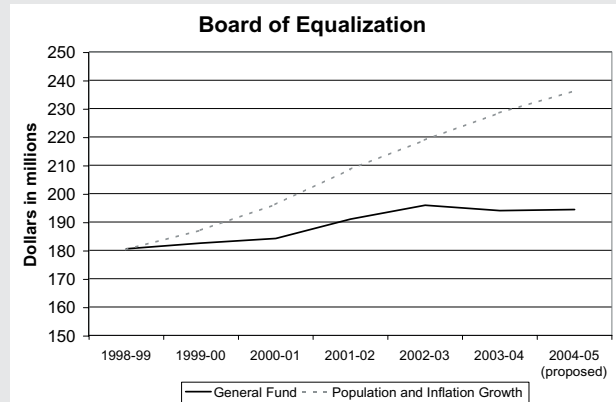
Cigarette and Tobacco Products Licensing Act

—The Budget proposes to add \$5.6 million in special funds and 40.6 personnel years in the current year and \$8.1 million in special funds and 80.7 personnel years in the budget year so that the BOE can implement Chapter 890, Statutes of 2003. This Chapter mandates the BOE to administer a statewide program to license businesses at all distribution levels of cigarette and tobacco products. This Chapter is intended to reduce evasion and to impose fines and penalties for those in violation of the law.

Annual Water Rights Fee—The Budget proposes to add \$664,000 in reimbursements and 2.1 personnel years in the current year and \$428,000 in special funds and 3.6 personnel years in the budget year so that the

Key Audit Findings— Board of Equalization

- From 1998-99 to the 2003 Budget Act, the BOE's General Fund expenditures have increased from \$181 million to \$201 million, an increase of \$20 million, or approximately 11 percent.
- The BOE's General Fund expenditures have been below population and inflation growth since 1998-99.



BOE can implement Chapter 741, Statutes of 2003. This Chapter requires the BOE to assess and collect various fees associated with the new annual water rights fee program on behalf of the State Water Resources Control Board.

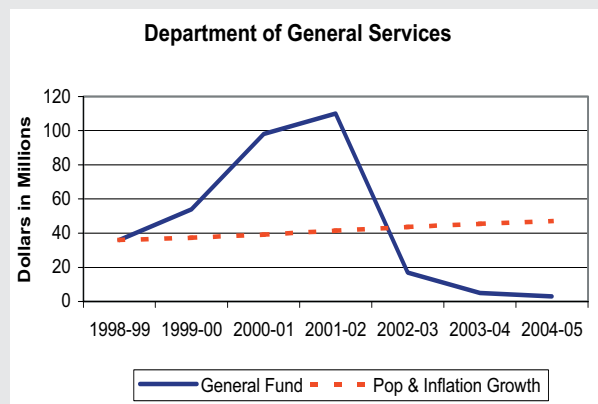
Department of General Services

Functions of the Department of General Services

The Department of General Services provides control and support for State agencies related to procurement, fleet administration, business services, administrative

Key Audit Findings— Department of General Services

- The General Fund budget for the Department of General Services decreased by \$31 million between 1998-99 and 2003-04, a reduction of 86 percent. DGS is primarily a fee-for-service agency.
- The major General Fund increases reflected in the chart are generally the result of limited-term expenditures associated with repairing the State Capitol after the 2001 truck crash, Energy Efficiency Projects authorized in special session legislation, and other energy-related emergency expenditures.





hearings, and is responsible for managing state-owned buildings and other property. The Department also administers the 911 Emergency Telephone Services program. The Department is a fee-for-service agency, and receives its funding support from rates, fees, and other charges paid by client departments. The Governor's Budget proposes \$874.5 million (\$3.0 million General Fund) and 3,524 personnel years for the Department.

Rate Restructuring

The Budget includes set-aside funding associated with increased rental rates in State buildings. Prior to allocating these funds, the Administration intends to conduct a review of statewide rental rates, including the methodology by which rates are set, the administrative overhead costs included in the rates, and the parity between building rates in different regions of the state, to determine whether rates can be set in a more equitable and efficient manner.

Department of Veterans Affairs

Functions of the Department of Veterans Affairs

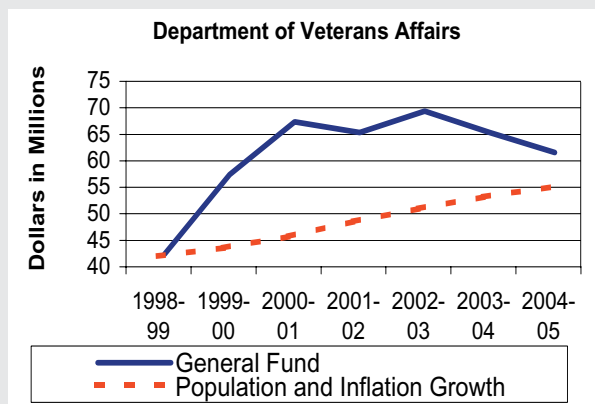
The Department of Veterans Affairs is responsible for providing services to California veterans and their dependents. The Department administers the Cal-Vet Farm and Home Purchase Program, assists veterans in obtaining State and federal benefits to which they are entitled, and operates veterans homes in Yountville, Barstow, and Chula Vista. The Governor's Budget includes \$293.7 million and 1,385 personnel years to support the Department's various programs.

Improving Accountability and Service Delivery

The Administration is committed to reassessing the operations of the Department, especially service delivery in the veterans homes, in light of operational challenges experienced in recent years and the need to adapt to the changing needs of the veteran population.

Key Audit Findings— Department of Veterans Affairs

- General Fund funding for this Department has increased by 55 percent from 1998-99 to 2003-04.
- The increase in funding is almost entirely attributable to operating costs for the new veterans home in Chula Vista, which opened in 2000.



Department of Fair Employment and Housing

Functions of the Department of Fair Employment and Housing

The Department of Fair Employment and Housing is responsible for enforcing State and federal anti-discrimination and civil rights laws. The Department's primary activities include: investigating complaints of discrimination to determine whether they can be substantiated; closing complaints that cannot be substantiated; resolving through mediation and negotiated settlements differences between those filing complaints and those accused of discrimination; and litigating violations of the law (on behalf of the State) in administrative hearings or in civil court when complaints are not resolved. The Governor's Budget proposes \$18.7 million (\$13.5 million General Fund) and 200 personnel years for the Department.

Federal Funds Augmentation—The Budget includes an augmentation of \$1.0 million (Federal Trust Funds) in 2003-04 and

2004-05 to properly align the Department's federal expenditure authority with its annual federal fund receipts, and to address a structural shortfall in the Department's operating budget.

Department of Consumer Affairs: Boards and Commissions

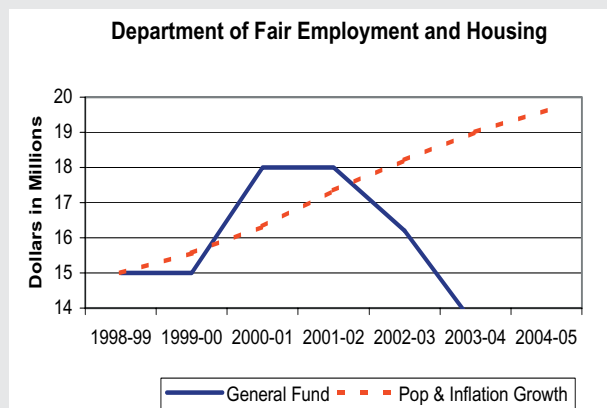
Functions of the Department of Consumer Affairs, Boards and Commissions

The Boards and Commissions are responsible for regulating various businesses and professions through examinations, licensing, and enforcement activities. Professional licensing fees support the activities of the Boards and Commissions. The 2004-05 Governor's Budget proposes \$185.3 million and 1,203 personnel years for the Boards and Commissions.

Athletic Commission Fund Shift—The Budget includes a reduction of

Key Audit Findings— Department of Fair Employment and Housing

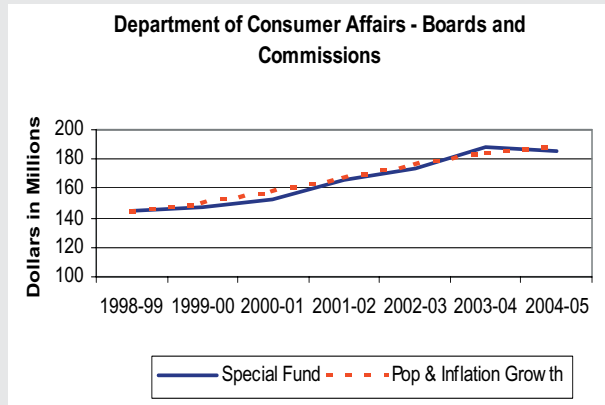
- The Department of Fair Employment and Housing experienced moderate budget growth in the years between 1998-99 and 2003-04, but this growth has been negated by budget reductions over the past two years.
- The General Fund Budget for the Department of Fair Employment and Housing decreased by \$1.5 million between 1998-99 and 2003-04, a reduction of 10 percent.





Key Audit Findings— Department of Consumer Affairs: Boards and Commissions

- The total budget for the Boards and Commissions under the Department of Consumer Affairs increased by \$43.3 million between 1998-99 and 2003-04, an increase of 29.9 percent.
- This growth can be generally attributed to increases in the number of professional licensing applicants, and enforcement activities.



\$619,000 General Fund and an increase of \$709,000 Athletic Commission Fund to convert support for the activities of the Athletic Commission to special fund fees. The Commission has always been fee-supported; however, these fees were deposited into the General Fund in support of the Commission. This change will bring the structure of the Commission's budget into conformity with those of the other professional licensing entities under the Department of Consumer Affairs.

Unlike the Boards and Commissions, these entities operate under the authority of the Director of Consumer Affairs. In addition to professional licensing and enforcement of professions including home furnishing and thermal insulation, security guards, and funeral homes, the Department also administers the statewide Smog Check Program. The 2004-05 Governor's Budget proposes \$145.6 million (\$0.5 million General Fund) and 1,288 personnel years for the Department.

Department of Consumer Affairs: Bureaus, Programs, and Divisions

Functions of the Department of Consumer Affairs' Bureaus, Programs, and Divisions

The Bureaus, Programs, and Divisions under the Department of Consumer Affairs perform various functions associated with the licensing and enforcement of different professions.

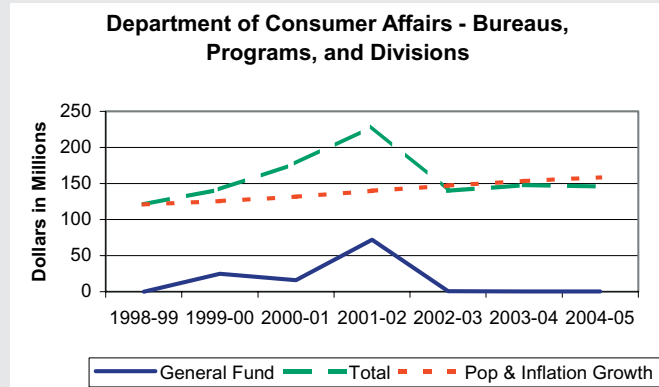
Office of Emergency Services

Functions of the Office of Emergency Services

In times of major emergency or disaster in California, the Office of Emergency Services (OES) coordinates emergency response activities to save lives, reduce property loss, and expedite recovery. The Governor's Budget proposes \$905.4 million (\$140.7 million General Fund, \$740.2 million federal funds,

Key Audit Findings— Department of Consumer Affairs: Boards, Programs, and Divisions

- The total budget for the Bureaus, Programs, and Divisions under the Department of Consumer Affairs increased by \$16.6 million between 1998-99 and 2003-04, an increase of 13.7 percent.
- The large General Fund increases reflected on the chart are the result of augmentations provided to the Department to perform outreach activities associated with the 2000 Census, and for public awareness campaigns related to energy conservation.



and \$24.5 million other funds) and 447 personnel years for the OES.

Program Enhancements and Other Budget Adjustments

Southern California Wildfires—The Governor's Budget proposes \$60 million in 2003-04 and \$40 million in 2004-05 for recovery from the wildfires in Southern California.

Homeland Security—The Budget proposes \$160.3 million federal funds (\$4.3 million state operations and \$156 million local assistance) for 2003-04 and \$4.6 million federal fund (\$1 million state operations and \$3.6 million local assistance) for 2004-05 to provide training, equipment, and planning for the purposes of homeland security. A spring budget change proposal will be proposed that will identify the federal fiscal year 2004 funds that will be available for additional Homeland Security funding.

Office of Criminal Justice Planning Transfer—Control Section 25.00 in the Budget Act of 2003 required the Department of Finance to submit an interim reorganization plan for the Office of Criminal Justice Planning (OCJP). The interim plan was submitted to and approved by the Joint Legislative Budget Committee. The plan proposes to transfer program activities related to Victims Services and Public Safety from OCJP to OES, pending a Governor's Reorganization Plan (GRP) that is due to be released in the spring. The Budget reflects the transfer of these programs effective January 1, 2004. Control Section 25.00 required the GRP to be submitted March 1, 2004. However, the Administration now plans on submitting the required GRP in May, as part of its statewide proposal to restructure State government.



California Science Center

Functions of the California Science Center

The California Science Center is an educational, scientific, and technological center located in Exposition Park, Los Angeles. Encompassed within the budget display for the Science Center is funding for support of the California African American Museum and the Office of the Park Manager.

The 2004-05 Governor's Budget proposes \$20.1 million (\$14.2 million General Fund) and 171 personnel years for the Science Center, the California African American Museum, and the Office of the Park Manager.

Science Center Elementary School and Center for Science Learning—The Budget proposes \$2.4 million (\$1.4 million General Fund) for the first year of operation of the newly-completed Science Center Elementary School, to be operated by Los Angeles Unified School District, and the Center for Science Learning.

Parking Structure—The Budget includes \$260,000 (Exposition Park Improvement Fund) for annual operational costs of the new parking structure in Exposition Park.

California Victim Compensation and Government Claims Board

Functions of the Victim Compensation and Government Claims Board

The Victim Compensation and Government Claims Board (Board) compensates victims of violent crime and eligible family members for certain crime-related financial costs, considers civil claims against the State, responds

to bid protests alleging improper or unfair acts of State agencies in the procurement of supplies and equipment, and provides for the reimbursement to counties of costs associated with special elections called by the Governor. Chapter 84, Statutes of 2003, placed the Board under the jurisdiction of the State and Consumer Services Agency effective January 1, 2004. The 2004-05 Governor's Budget proposes \$141.3 million and 301 personnel years for the Board.

Government Claims Program—The Governor's Budget proposes to shift costs associated with the Government Claims Program to reimbursements, for General Fund savings of \$809,000 beginning in 2004-05. Under this proposal, filers of civil claims against the State would pay a filing fee, which would be refunded upon approval and payment of the claim. Included within this reduction plan is a proposal to require charities that participate in the California State Employees Charitable Campaign to support the full cost of the certification program. To date, the General Fund has supported these costs.

State Personnel Board

Functions of the State Personnel Board

The State Personnel Board (SPB) enforces civil service statutes, prescribes probationary periods and classifications, reviews disciplinary actions, and adopts other rules authorized by statute. The Board is comprised of five members appointed by the Governor to ten-year terms. The 2004-05 Governor's Budget proposes \$17.1 million (\$3.3 million General Fund) and 120 personnel years for the SPB.

Reduction in Responsibilities—The Governor's Budget proposes a \$600,000

General Fund reduction for the SPB. Though this reduction will further limit the ability of the SPB to provide some services to non-paying clients, State agencies will still be able to obtain various SPB services on a reimbursable basis.

Military Department

Functions of the Military Department

The Military Department is responsible for the command, leadership, and management of the California Army and Air National Guard, whose purpose is to provide military service support to California, as well as the nation. These services are provided through

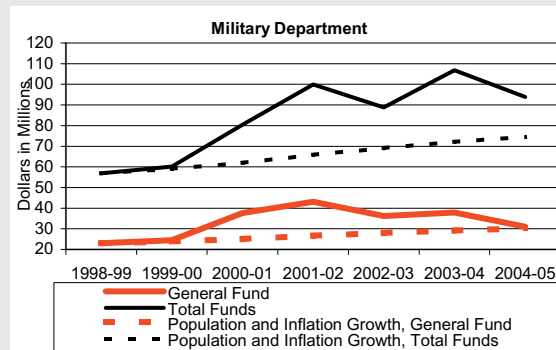
118 armories, 10 air bases, and three army bases located throughout California. The Governor's Budget proposes \$93.8 million and 654 personnel years for the Department. The Department also receives an additional \$571.3 million in federal funds that are not deposited in the State treasury.

Program Enhancements and Other Budget Adjustments

Homeland Security—\$8.8 million federal funds and five personnel years in 2003-04 and \$2.1 million federal funds and seven personnel years in 2004-05 to provide a homeland security augmentation for equipment, training, exercises, and infrastructure.

Key Audit Findings— Military Department

- Total funding for the Department has increased from \$56.9 million in 1998-99 to \$90 million as of the 2003 Budget Act, a 58 percent increase.
- This increase is primarily due to increased receipt of federal funds for support of various Military Department programs, and additional General Fund resources, as discussed below.
- General Fund support increased approximately \$9 million or 9 percent over the six-year period.
- The Department's General Fund increases peaked in 2001-02 when the Turning Point Academy and other youth programs were supported by \$15.2 million General Fund. As of the 2003 Budget Act \$5.5 million General Fund was appropriated for the same purpose, this comprises approximately \$5.0 million of the increase in General Fund. The Turning Point Academy and the administrative component of the Cadet Corps have been eliminated since 2001-02.
- Option for controlling costs include reducing or eliminating General Fund support for Youth Programs.





Bridge Guarding—\$5.5 million General Fund in 2003-04 associated with the California National Guard providing 24-hour, seven-days-a-week coverage at the Golden Gate Bridge.

Fresno Firefighter Positions—\$298,000 federal funds and four personnel years in 2003-04 and \$383,000 federal funds and five personnel years in the 2004-05 to provide additional firefighter positions at the Fresno Air National Guard Base.

Armory Project Managers—\$360,000 federal funds and three personnel years to provide additional project managers to operate the Military Construction program.

Joint Training and Experimentation Program Manager Position—\$113,000 federal funds and one personnel year in 2003-04 and \$133,000 federal funds and one personnel year in 2004-05 to provide one State Active Duty position to manage the Joint Training and Experimentation Program.

Family Assistance Officer for the “Operation Ready” Families Program—\$101,000 federal funds and one personnel year in 2003-04 and \$129,000 federal funds and one personnel year in 2004-05 to provide a Family Assistance Officer of the “Operation Ready” Families Program.

Youth Program Reductions—In response to the audit findings, the Governor’s Budget proposes a reduction of \$1.4 million General Fund and ten personnel years associated with reductions to the Starbase Program, Challenge Program and the California Cadet Corps.